

## The Art of Systematic Surveillance

*Intelligence Management – “To be defeated is forgivable, to be surprised is not!”*



“Great leadership isn’t about solving problems after the fact, but foreseeing potential problems and eliminating them before they occur” Jack Welch, former CEO of General Electric, once said. Intelligence Management is a systematic approach that leverages both internal and external knowledge in new ways. It streamlines decision making, enhances competitive positioning and creates an environment that aggressively responds to competitive threats and market challenges.

### Introduction

Today’s business environments move at a rapid pace. Managers are constantly forced to make quick decisions based on imperfect or even incomplete data. Consumer trends and preferences change with every new season, new competitors emerge from previously remote markets, and we see product and service life cycles shrinking with new technologies and approaches. Being able to quickly and appropriately act on these changes is the key to create competitive advantage (or as Frederik the Great said “To be defeated is forgivable, to be surprised is not”).

However, the frequency of this data often overwhelms companies and creates a huge information overload. Many companies today have difficulties in managing this influx of information and responding to it in a timely manner. How should they deal with the complexity and the accuracy of this data? What is relevant, what is not? What does the best structure for Intelligence Management look like? What sources do they need to leverage and how?

A fortune 500 company in the electro-mechanical business has institutionalized early warnings in its strategy department. Customized to its strategic business units’ relevant indices like macro-economical trends, commodity prices, competitor development and very specific business drivers, like end customer orders, are constantly collected, transformed into intelligence, and used for example in the yearly resource planning process. While it took most electrical or mechanical companies more than six to nine months to adapt to the last economic upturn in 2005, ElectriCo needed only three!

### Intelligence Management framework

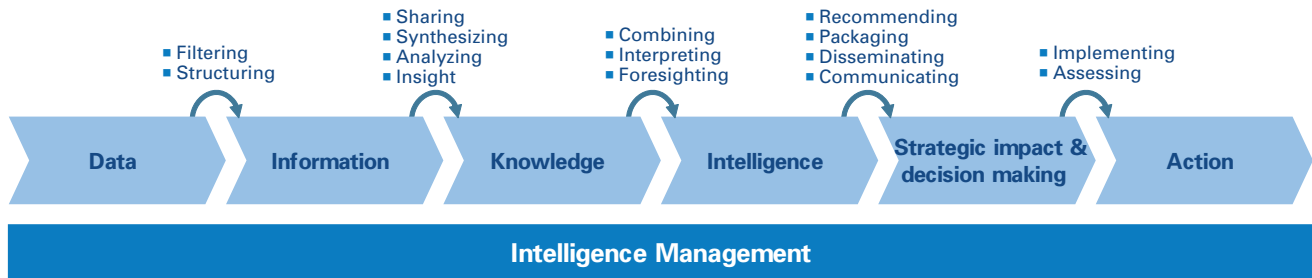
Intelligence Management is a smart and business needs oriented process that transforms data into intelligence, allowing companies to take the optimal strategic decision for the occurring situation (see figure 1).

It is important to distinguish between two often confused terms, knowledge management and Intelligence Management. Knowledge management is the process of systematically collecting, organizing and sharing of information and data. Intelligence Management is the interpretation and dissemination of knowledge as intelligence to users who will act on it.

Intelligence Management is a key task for the overall company’s strategic management focusing on the observation of the external environment. Intelligence Management is segmented in the three arenas – technology intelligence, commercial and marketing intelligence, and strategic & social intelligence (see figure 2), and typically includes:

- Identification of changes in techniques, technologies & IP used by customers, suppliers, competitors, etc., in order to feed internal technological innovation, anticipate substitution, and to support decisions for evolution of older technologies used today
- Analysis of customers, partners & suppliers in terms of relationship, changing needs, total demand (market size & growth), available and desired products & services in order to assess market attractiveness, optimize product/ service – customer mix, or to optimize the suppliers/ partners base

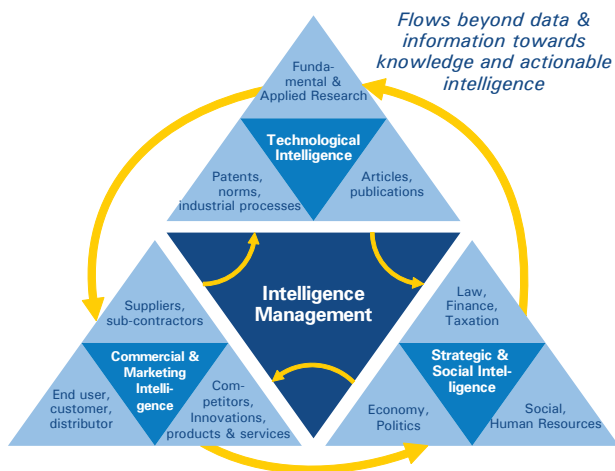
Figure 1: Intelligence Management framework



- **Process** – Structured process by which data is identified, collected, processed & diffused as intelligence to relevant stakeholders
- **Resources** – Clearly identified resources (people & tools) to execute this process
- **Organization** – Transparent roles & responsibilities attributed to the existing organization and external partners, often completed by a dedicated entity
- **Culture** – Integral part of the company’s culture and the employees’ mindset and behavior

Source: Arthur D. Little

Figure 2: Intelligence Management segmented in three arenas



Source: Arthur D. Little

- Identification of actual and potential new competitors (products & services, financials, resources, processes, ...) in order to anticipate possible actions from competitors, identify opportunities related to strategic moves of competitors, or to screen for M&A opportunities
- Surveillance of the macro drivers of the company: regulatory, macroeconomics, political, social, cultural & legal environment in order to anticipate changes in the macro environment and to understand the relative importance and potential levers to act on macro drivers

### Organization of Intelligence Management

Intelligence Management involves the entire organization and encompasses three major roles: Intelligence governance, Intelligence demand, and Intelligence supply.

Intelligence governance defines, implements, steers, and monitors the overall intelligence process, and is responsible for the intelligence strategy and focus areas, the guidelines for how to search and share intelligence (templates, tools, database,...), and for maintaining a dynamic list of intelligence priority areas that support the company’s strategy. Furthermore the governance role also tracks the overall intelligence performance and coordinates contacts with selected external intelligence partners.

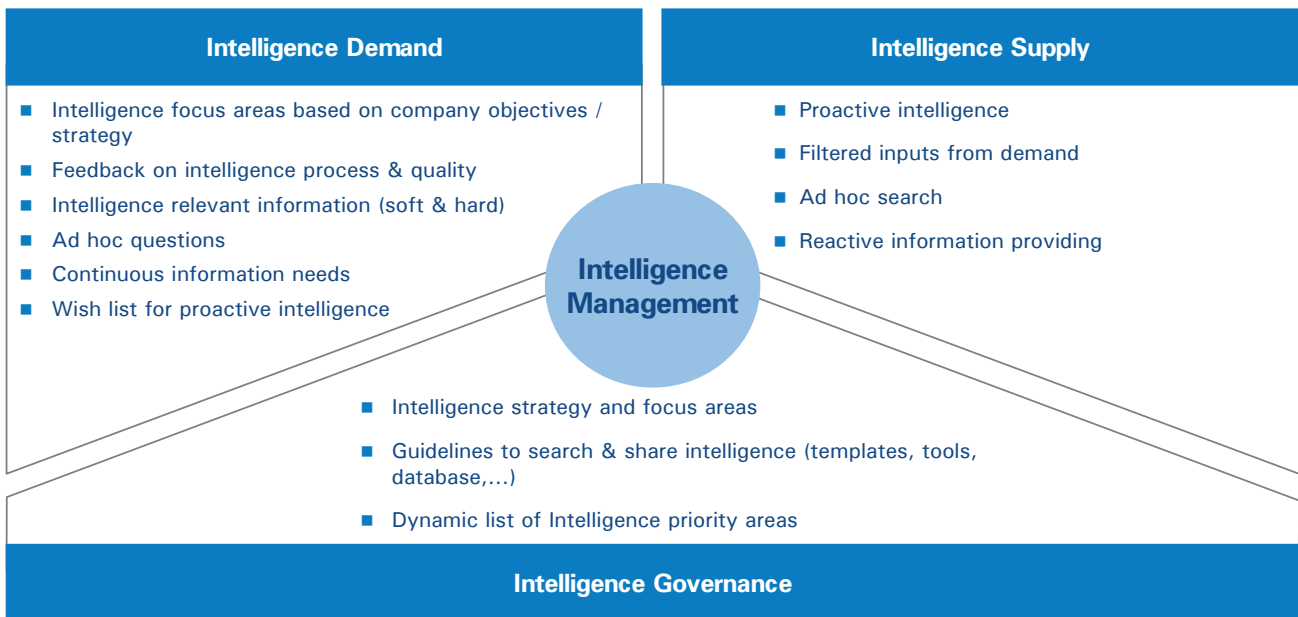
Intelligence demand is comprised of employees who utilize different levels of this data and the outputs from the intelligence process. Intelligence users feed information requests to the supply side, be it ad-hoc questions, continuous information needs, or a wish list for proactive intelligence.

Intelligence supply is composed of appointed resources who transform data into information and knowledge, and to intelligence building on content experts from both within and outside the company to gather and validate interpretations.

### Intelligence Management tools

As mentioned above, Intelligence Management involves everyone and there are many creative ways to capture competitive intelligence that can be applied in the different functions.

**Figure 3: Intelligence Management organization**



Source: Arthur D. Little

Procurement observes alliances and cooperations between suppliers and competitors, identifies supply bottlenecks and changes in production capacities of competitors, and assesses the bargaining power of competitors with their suppliers and the different forms of contracts (price, service level, single vs. dual sourcing, etc.)

R&D scouts new technology to get early identification of next generations, threat of substitutions, etc., and do scenario planning for technology developments. Furthermore R&D can do re-engineering of competitors products and conduct technology benchmarking of performance, cost, and quality

Marketing and product management monitor competitors' pricing and positioning strategies, monitor competitors' advertising efforts (channel, frequency, scope, events, etc.), as well as the advertising contents and materials.

Sales and after-sales services analyze competitors' sales approaches, their sales presentations, their point of sales, and their distribution channels, as well as estimate their impacts. Furthermore they monitor warranty types and terms of competitors and identify customers' price/performance ratio

Human resources monitors job advertisement, debrief new employees concerning competitor information, and analyze competitors' compensation models

In addition there are a number of other systematic tools that can be applied to capture and create valuable intelligence:

- Lead-user observation identifies and articulates needs which the mass market will develop in the future
- Trend repository helps to create a shared view of the most important trends for the company, their drivers, the degree of influence and the probability of the trends
- Trend identification is a systematic approach to search for trends through studies, expert panels, trend research institutes, etc.
- Technology watch detects possible discontinuities in the technology base by anticipating technology trends and needs
- Supplier scouting screens relevant supplier markets (industry associations, industry reports, recommendations of advisors, interviews with key players and network partners, internet research) to identify new potential suppliers

For example, a two billion Euro pump manufacturer is monitoring its top five global competitors on a quarterly basis. For each competitor, a strategic profile has been set up showing all relevant financial figures of the P&L, impact to its balance sheet as well as all recent strategic initiatives and actions throughout the world. The comparison with its own company performance versus the "main" competitor of its strategic business units is even used in the personal compensation scheme of the respective managers. Through this constant surveillance and engagement with the competition's performance, PumpCo was able to outperform its main rival in terms of market share.

### Conclusion

From our experience, companies that have successfully implemented an Intelligence Management system are able to respond quickly to competitive threats and market challenges. Effective Intelligence Management reduces the ambiguity in decision making by knowing and not guessing. It allows managers to take appropriate actions that strengthen the company's competitive position, e.g., by providing "early warnings" of business or technology threats, competitor's capabilities and intentions, and a greater understanding of the external environment. Such intelligence also provides the catalyst to fuel the identification of new (innovative) business, product and revenue opportunities.

Intelligence Management requires a clear focus on what is important to the business. It needs to be an easy process and structured with clear roles and responsibilities, broad involvement across the organization, and strong ethical standards that is embraced by all.

### Arthur D. Little and Intelligence Management

Arthur D. Little has a successful track record of helping clients with Knowledge and Intelligence Management issues. Typical support from our experts includes assistance in designing and planning the Intelligence Management set-up, the strategy, the process, the organization, and the resources, as well as selecting enabling IT support and in leading the implementation and the change management effort.

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### Arthur D. Little

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